

**Asian Art Museum**

Combined Financial Statements

June 30, 2023  
(With Comparative Totals for 2022)



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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Asian Art Museum  
San Francisco, California

### **Opinion**

We have audited the accompanying combined financial statements of Asian Art Museum (the "Museum"), which comprise the combined statement of financial position as of June 30, 2023, and the related combined statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Asian Art Museum as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Asian Art Museum and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

We have previously audited Asian Art Museum's 2022 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Asian Art Museum's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Asian Art Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Asian Art Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Armanino<sup>LLP</sup>  
San Ramon, California

November 16, 2023

Asian Art Museum  
 Combined Statement of Financial Position  
 June 30, 2023  
 (With Comparative Totals for 2022)  
 (In thousands)

	2023	2022
<b>ASSETS</b>		
Assets		
Cash and cash equivalents	\$ 3,545	\$ 8,103
Investments	39,171	46,126
Short-term investments - restricted	6,360	6,415
Contributions receivable, net	2,874	2,258
Inventory, prepaids, and other assets	1,579	805
Contributions receivable for long-term, net	2,010	2,794
Property and equipment, net	114,927	114,747
Contributions receivable for endowment, net	-	99
Investments held for endowment	71,830	69,922
Investments held in trusts	775	1,016
Total assets	\$ 243,071	\$ 252,285
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 3,547	\$ 3,445
Deferred revenue and deposits	172	655
Interest payable	568	588
Loan payable, net	73,877	76,483
Total liabilities	78,164	81,171
Net assets		
Without donor restrictions	86,768	90,393
With donor restrictions	78,139	80,721
Total net assets	164,907	171,114
Total liabilities and net assets	\$ 243,071	\$ 252,285

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum  
Combined Statement of Activities  
For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)  
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenues, gains (losses), and other support				
Contributions and grants	\$ 6,516	\$ 5,891	\$ 12,407	\$ 16,797
City appropriation	10,695	-	10,695	9,905
Admissions	1,248	-	1,248	2,522
Membership	1,622	-	1,622	1,355
Investment income (losses), net	1,831	2,727	4,558	(9,334)
Change in fair value of split interest agreements and commercial real estate	(254)	(707)	(961)	(127)
Tours and special events	1,897	-	1,897	159
Museum shop, net of cost of goods sold	420	-	420	571
Loss on disposal of property and equipment	-	-	-	(298)
Facilities rental gross profit	463	-	463	282
Other	337	-	337	69
Net assets released from restriction	10,493	(10,493)	-	-
Total revenues, gains (losses), and other support	<u>35,268</u>	<u>(2,582)</u>	<u>32,686</u>	<u>21,901</u>
Functional expenses				
Program	26,901	-	26,901	23,972
Management and general	7,575	-	7,575	7,197
Fundraising	4,417	-	4,417	4,599
Total functional expenses	<u>38,893</u>	<u>-</u>	<u>38,893</u>	<u>35,768</u>
Change in net assets	(3,625)	(2,582)	(6,207)	(13,867)
Net assets, beginning of year	<u>90,393</u>	<u>80,721</u>	<u>171,114</u>	<u>184,981</u>
Net assets, end of year	<u>\$ 86,768</u>	<u>\$ 78,139</u>	<u>\$ 164,907</u>	<u>\$ 171,114</u>

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum  
Combined Statement of Functional Expenses  
For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)  
(In thousands)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2023 Total</u>	<u>2022 Total</u>
Salaries and wages	\$ 9,677	\$ 3,312	\$ 1,666	\$ 14,655	\$ 14,072
Depreciation and amortization	3,396	823	727	4,946	5,067
Interest	2,413	585	517	3,515	3,634
Employee benefits	1,513	365	322	2,200	2,261
Fees for services	2,628	392	155	3,175	2,027
Retirement plan contributions	919	203	199	1,321	1,344
Building maintenance	858	494	-	1,352	1,198
Payroll taxes	779	153	164	1,096	1,042
Advertising and promotion	562	5	179	746	789
Insurance	707	131	3	841	699
Office expense	344	238	7	589	576
Information and technology	294	244	6	544	457
Meals and entertainment	234	68	127	429	397
Utilities	130	390	-	520	393
Printing and publication	332	5	225	562	386
Shipping and freight	348	14	92	454	372
Supplies	361	58	4	423	248
Rent	152	73	-	225	273
Bad debt	312	-	-	312	162
Travel	207	8	16	231	149
Art acquisitions	478	-	-	478	119
Conferences and meetings	18	1	3	22	77
Participation fees	177	-	1	178	20
Miscellaneous	62	13	4	79	6
	<u>62</u>	<u>13</u>	<u>4</u>	<u>79</u>	<u>6</u>
Total functional expenses	<u>\$ 26,901</u>	<u>\$ 7,575</u>	<u>\$ 4,417</u>	<u>\$ 38,893</u>	<u>\$ 35,768</u>

The accompanying notes are an integral part of these combined financial statements.

Asian Art Museum  
Combined Statement of Cash Flows  
For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)  
(In thousands)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (6,207)	\$ (13,867)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	4,946	5,067
Loss on disposal of property and equipment	-	298
Bad debt expense	312	162
Non-cash interest expense	14	14
Net realized and unrealized (gains) losses on investments	(3,789)	9,779
Change in fair value of split interest agreements and commercial real estate	961	127
Contributions restricted for long-term purposes	(250)	(405)
Contributions restricted for endowment	(2,770)	(4,651)
Changes in operating assets and liabilities		
Contributions receivable	(659)	(200)
Inventory, prepaids, and other assets	(774)	(66)
Accounts payable and accrued expenses	102	(56)
Deferred revenue and deposits	(483)	(222)
Interest payable	(20)	(19)
Net cash used in operating activities	(8,617)	(4,039)
Cash flows from investing activities		
Purchases of property and equipment	(5,126)	(1,576)
Proceeds from sale of property and equipment	-	144
Purchases of investments	(12,604)	(24,434)
Proceeds from sales/maturities of investments	20,775	25,129
Net cash provided by (used in) investing activities	3,045	(737)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	764	871
Proceeds from contributions restricted for endowment	2,870	6,777
Principal payments on loan payable	(2,620)	(2,500)
Net cash provided by financing activities	1,014	5,148
Net increase (decrease) in cash and cash equivalents	(4,558)	372
Cash and cash equivalents, beginning of year	8,103	7,731
Cash and cash equivalents, end of year	\$ 3,545	\$ 8,103

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 3,535	\$ 3,653
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The accompanying notes are an integral part of these combined financial statements.



Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

1. NATURE OF OPERATIONS

Founded in 1959, the Asian Art Museum of San Francisco (the "Museum") opened in 1966 to house the Avery Brundage Collection and other Asian art collections of the city and county of San Francisco (the "City"). The Museum is governed by the Asian Art Commission (the "Commission"), established under the City charter, and by the Asian Art Museum Foundation of San Francisco (the "Foundation"). The Commission members are appointed by the mayor of the City. The Foundation's board of trustees (the "Trustees") is nominated by the Foundation's Committee on Trustees and elected by the Trustees. The Foundation supports the Museum by raising funds for exhibitions and public programs, including school programs, conservation, the library, special exhibitions, acquisitions, and other needs of the Museum, not funded by the City.

As of June 30, 2023, 69% of the Museum's employees were Foundation employees and 31% were City employees. At June 30, 2023, approximately 60% of the Foundation employees and 100% of the City employees were covered by collective bargaining agreements. All Foundation employees except for supervisors, managers, or confidential employees are covered under the Service Employees International Union 1021 collective bargaining agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The combined financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable for not-for-profit organizations. Accordingly, net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The combined financial statements include the operating and other transactions of the department of the City that relate to the Asian Art Museum of San Francisco and the activities of the Foundation (collectively, the "Museum").

Net assets

The Museum's combined financial statements are presented on the basis of accounting for not-for-profit organizations, with separate accounting for net assets without donors restrictions and net assets with donor restrictions in accordance with accounting principles generally accepted in the United States of America as follows:

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum's management and Trustees. Net assets without donor restrictions may be designated for specific purposes by the Trustees.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets (continued)

- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Museum classifies the support as without donor restrictions.

Net assets with donor restrictions also include accumulated appreciation of permanently restricted endowment funds that have not been appropriated by the Trustees in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In addition, net assets with donor restrictions includes contributions to be held as investments in perpetuity as directed by the donor. The income from these investments is primarily available to support activities of the Museum as determined by the donor. Net assets with donor restrictions include endowments, which are assets restricted by the donor to be held in perpetuity. The endowment must be expended in accordance with the terms and conditions established by the donors.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law.

Cash and cash equivalents

Cash and cash equivalents consist of demand accounts and highly liquid investments purchased with an original maturity of three months or less.

Short-term investments - restricted

The short-term investments restricted for the loan reserve are required to be held in a reserve fund and are related to the loan payable. The short-term investments are invested in money market funds and federal obligations that have terms of less than one year and will be held to maturity.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment and fair value measurements

Investments are reflected in the combined statement of financial position at fair value with changes in realized and unrealized gains and losses resulting from changes in fair value reflected in the combined statement of activities as investment gain or loss. Publicly traded investments in active markets are reported at the market closing. Investment transactions are recorded on a trade-date basis (for publicly traded investments) or upon closing of the transaction (for private investments).

- *Level 1* - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments, which would generally be included in Level I, includes listed equity securities.
- *Level 2* - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not identical as those used in Level I. These inputs may include quoted prices for identical instruments on an inactive market. Fair value is determined through the use of models or other valuation methodologies.
- *Level 3* - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation by management. The types of investments, which would generally be included in this category include investments held in trusts and commercial real estate. The commercial real estate is valued based upon recent property appraisal, changes in real estate market values, and sales of comparable properties.

The Museum uses the Net Asset Value ("NAV") to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare the financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. See Note 4 for investments presented within the fair value hierarchy.

Investments held in trusts

Charitable remainder trusts are stated at estimated fair value, less the present value of estimated future payments to the income beneficiaries based on the composition of investment portfolios, life expectancies from certain mortality tables, and the discount rate applicable in the years the trusts were established.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments held in trusts (continued)

Investments held in trusts include the fair value of a trust held in perpetuity.

Contributions receivable

Contributions are recognized as revenue when they are received or unconditionally promised. Bequests are recognized as revenue at the time the gift becomes known, is determined to be irrevocable, and the value of the contribution can be established. Contributions receivable consists of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable in the year in which they are received. The risk free rates used for the year ending June 30, 2023 range from 0.06% to 5.40%. Amortization of the discounts is included in contributions and grants revenue. The Museum closely monitors receivables. The Museum's uncollectible contributions receivables have historically not been significant.

Conditional promises to give are not recognized until conditions have been substantially met and they become unconditional; that is when the related barrier has been overcome and right of release/right of return no longer exists. The Museum had no conditional promises to give as of June 30, 2023.

Inventory

Inventory of gift shop items is valued at the lower of cost or net realizable value. Inventory consists of retail store merchandise available for sale on June 30, 2023. Cost is determined using the first-in-first-out ("FIFO") method.

Revenue recognition

Revenue, other than from contributions, bequests, and unconditional grants, is recognized in the period in which the service has been provided.

The management of the Museum estimates that the cost of memberships equals the fair value of goods and services received by members. Accordingly, the Museum recognizes membership sales as revenue over the membership period, using the straight-line basis. Virtually all memberships sold cover a period of one year.

The Museum recognizes revenue from admissions and discounted admissions coupons upon the visit to the Museum.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Museum earns revenue from various tours, facility rentals, and special events. The Museum recognizes revenue related to these sources when the related activity occurs.

The Museum recognizes store revenue upon sale of the merchandise. Estimated returns are not material.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years. Contributed property and equipment are recorded at fair value at the date of donation.

Title to the land, buildings, and improvements of the Museum rests with the City. Under the terms of the City Charter, no one other than the City can hold title to the building and the building cannot be sold or converted for the benefit of the Museum. The improvements to the City building which houses the Museum's collections and in which the Museum operates were funded entirely by donations and bond proceeds (see Note 5).

Deferred loan costs

Deferred loan costs are amortized over the term of the related loan payable based on the effective interest rate method. Interest expense related to loan costs for the year ended June 30, 2023 was \$14.

Deferred revenue

Deferred revenue consists primarily of fees received for future exhibitions, advances, ticket sales, and unearned membership dues.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Collections

The Museum's permanent collections represent more than 40 Asian countries and span 6,000 years of Asian history. Objects are held for educational, research, and curatorial purposes. Under the Museum's Collections Management Policy, all objects are catalogued, preserved, and provided with ongoing care. Activities verifying their existence and assessing their condition are performed regularly. Title to the permanent collection of works of art rests with the City. If accepted into the permanent collection, donated art objects become the property of the City and are not recorded in the Museum's combined financial statements. Purchases of art are recorded as an expense in the Museum's combined statement of activities and changes in net assets. The Museum deaccessions objects deemed no longer relevant to the permanent collection in accordance with the Museum's Collections Management Policy. Proceeds from deaccessions are used to acquire other objects for the collection.

Contributed services

In-kind contributions are reflected as contributions at their fair value on the date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated services must be used. Contributed services are reflected in the consolidated financial statements at the fair value of the services rendered. The Museum recognizes contribution revenue if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that would need to be purchased, if not donated. During the year ended June 30, 2023, contributed services recognized in the combined statement of activities and changes in net assets as contributions and grants were \$62, and the corresponding expenses were included in insurance, travel, and supplies.

In addition, the Trustees and a substantial number of volunteers have donated significant amounts of time to develop the Museum's program and objectives. The value of donated volunteer services has not been recognized in the accompanying combined financial statements because such volunteer services do not meet the above recognition criteria.

Concentration of credit risk

Financial instruments that potentially subject the Museum to credit risk consist primarily of cash and cash equivalents, investments, and receivables. The Museum maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include demand accounts and highly liquid investments purchased with an original maturity of three months or less. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. The Museum attempts to limit its credit risk associated with investments by utilizing outside investment managers to place the Museum's investments with highly rated corporate and financial institutions.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. Expenses applicable to more than one program or activity have been allocated among the programs, supporting services, and enterprise activities based on headcounts and square footage and on estimates made by the Museum's management.

Comparative financial information

The combined financial statements and related footnotes, include certain prior-year comparative information summarized in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with the Museum's combined financial statements for the year ended June 30, 2022, from which the summarized information is derived.

Income tax status

The Museum has been classified as a publicly supported tax-exempt organization that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Revenue and Taxation Code Section 23701(d). The Museum believes that no liabilities are required to accrue for uncertain tax positions as of June 30, 2023.

Use of estimates

The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year combined financial statements have been reclassified to conform with the current year presentation. Such reclassifications had no net effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its statement of financial position. The Museum adopted this guidance effective July 1, 2022, using the modified retrospective approach, which eliminated the requirement to restate amounts presented prior to July 1, 2022. The Museum implemented the standard and concluded that the value of its lease asset and liability obligations under the standard are not material to the combined financial statements.

Subsequent events

The Museum has evaluated subsequent events through November 16, 2023, the date the combined financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Museum's combined financial statements.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2023, consisted of the following:

Less than one year	\$ 2,842
One to five years	<u>2,149</u>
	4,991
Less: allowance for doubtful contributions receivable	(44)
Less: discount on multi-year contributions receivable	<u>(63)</u>
	<u>\$ 4,884</u>



Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets				
Short-term investments - restricted	\$ -	\$ 6,360	\$ -	\$ 6,360
	<u>-</u>	<u>6,360</u>	<u>-</u>	<u>6,360</u>
Investments				
Cash equivalents	28,101	-	-	28,101
Large cap equity securities	18,813	-	-	18,813
Other equity securities	27,804	-	-	27,804
Mutual funds - bonds	<u>4,632</u>	<u>-</u>	<u>-</u>	<u>4,632</u>
	<u>79,350</u>	<u>-</u>	<u>-</u>	<u>79,350</u>
Charitable remainder trusts	-	-	775	775
Commercial real estate	<u>-</u>	<u>-</u>	<u>4,240</u>	<u>4,240</u>
	<u>\$ 79,350</u>	<u>\$ 6,360</u>	<u>\$ 5,015</u>	90,725
Investments measured at net asset value*				<u>27,411</u>
				<u>\$ 118,136</u>

\*In accordance with Subtopic 820-10, certain investments are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statement of financial position.

The changes in investments classified as Level 3 for the year ended June 30, 2023 are as follows:

	<u>Charitable Remainder Trusts</u>	<u>Commercial Real Estate</u>	<u>Total</u>
Level 3 Investments			
Balance, beginning of year	\$ 1,016	\$ 4,960	\$ 5,976
Change in value	<u>(241)</u>	<u>(720)</u>	<u>(961)</u>
Balance, end of year	<u>\$ 775</u>	<u>\$ 4,240</u>	<u>\$ 5,015</u>

Asian Art Museum  
Notes to Combined Financial Statements  
June 30, 2023  
(In thousands)

4. INVESTMENTS (continued)

The quantitative information about significant unobservable inputs related to Level 3 real estate investments as of June 30, 2023, is as follows:

<u>Product</u>	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Assumptions</u>
Commercial real estate (a)	\$ 4,240	Market Valuation	Rent growth rate	3%

- (a) The investment in commercial real estate represents the Museum's partial interest in a commercial building. The fair value of the interest has been determined using a 3rd party commercial real estate appraisal.

Investment strategy and redemption information

The following table summarizes the investment strategy types and various features of the investment portfolio for investments that are recorded at net asset value as a practical expedient as of June 30, 2023. The Museum has commitments under the associated investment agreements to make additional capital contributions as noted:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Term</u>	<u>Redemption Restrictions</u>
Diversified hedge funds (a)	\$ 13,080	\$ -	Quarterly - annually	45 - 595 days
Private equity funds (b)	14,284	9,722	N/A	N/A
Real estate funds (c)	<u>47</u>	<u>-</u>	N/A	N/A
	<u>\$ 27,411</u>	<u>\$ 9,722</u>		

- (a) This category includes investments in hedge funds that have an investment objective to seek consistent long-term growth of capital with reduced volatility. The funds invest in a diversified portfolio of global natural resource securities, commodities, and real assets as well as global, multistrategy, event-driven funds focused on producing strong risk-adjusted returns with low volatility relative to the stock market and relatively low correlation to both the equity and debt markets. These funds have the ability to make principally noncontrolling investments in debt, equity, or other securities or indebtedness of (i) companies in financial distress or undergoing a turnaround; (ii) companies in bankruptcy, organization, or liquidation; (iii) companies that are undervalued because of discrete extraordinary events; or (iv) companies whose securities are deemed to be undervalued. The fair values of these hedge funds have been determined using the NAV per share of the investment funds.

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4. INVESTMENTS (continued)

Investment strategy and redemption information (continued)

- (b) The private equity category includes several funds that invest in a broad range of privately owned domestic and foreign companies. The nature of these funds is that distributions are received through the liquidation of the underlying assets of the funds. Investments may include common and preferred stocks and warrants, convertible notes, and partnership interests. Some funds are established for the purpose of seeking capital appreciation through early-to-late-stage venture capital investments in companies in the biotechnology industry, including those focused in the pharmaceuticals, medical devices, genetics, drug delivery, diagnostics, energy and natural resources, media, retail, telecommunications, financial services, and health care information technology sectors. The fair values of these private equity funds have been determined using the NAV per share of the investment funds.
- (c) The real estate partnerships were formed for the purpose of acquiring, investing in, developing, managing, operating, leasing, owning, financing, holding, and selling office buildings and mixed-use projects and investing in debt or equity instruments related to similar real estate projects. The partnerships may also invest in real estate as a long-term operating business set against a backdrop of powerful market cycles driven primarily by capital flows. The fair values of these real estate funds have been determined using the NAV per share of the investment funds. Investments representing 100% of the value of the investment in this category cannot be redeemed because the investments include restrictions.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

Buildings	\$ 181,243
Office equipment	5,550
Art storage and display cases	7,177
Computer equipment	736
Furniture and fixtures	<u>3,158</u>
	197,864
Less: accumulated depreciation	<u>(82,937)</u>
	<u>\$ 114,927</u>

Depreciation and amortization expense amounted to \$4,946 for the year ended June 30, 2023.

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6. LOAN PAYABLE

The rehabilitation of the Museum building (the "Project") was initially financed through a combination of public and private financing, including the proceeds of approximately \$40,000 in City General Obligation Bonds and \$107,445 of Revenue Bonds, Series 2000 (the "2000 IBank Bonds") issued by California Infrastructure and Economic Development Bank ("IBank"). Total costs related to the Project were approximately \$180,000.

As a result of a settlement agreement, the Museum restructured the 2000 IBank Bonds under the terms of a February 1, 2011, loan agreement to \$96,985. Specifically, on February 11, 2011, the California Enterprise Development Authority (the "Authority") obtained a loan from JPMorgan Chase Bank, National Association ("JPMorgan") in an aggregate principal amount of \$96,985, plus costs related thereto, for the purpose of the refinancing, and loaned the proceeds thereof to the Museum, all pursuant to that certain loan agreement dated as of February 11, 2011, between JPMorgan, the Authority, and the Museum (the "Loan Agreement" or "2011 Loan").

The principal amount of the 2011 loan under the Loan Agreement bears interest rate at the rate of 4.60% per annum. Under certain circumstances provided for in the Loan Agreement, the loan bears interest at the default rate of 6.60% per annum. The Loan Agreement provides for the accrual of interest on the aggregate principal balance of the 2011 loan from the February 11, 2011, closing date to the February 1, 2040, maturity date, or earlier prepayment, as provided therein. Such interest is payable by the Museum quarterly, on each quarterly installment date, commencing May 1, 2011, in arrears on or prior to such date (unless the 2011 loan is bearing interest at the default rate, whereupon interest becomes payable on demand).

The Loan Agreement also provides that the principal amount of the loan is to be paid in quarterly installments, on each quarterly installment date, which commenced on May 1, 2012. The interest payments assume that all payments are made by the Museum on schedule.

The short-term investments-restricted at June 30, 2023 consists of \$6,360 of investments, which is equivalent to one year's debt service on the 2011 Loan, at June 30, 2023, and is required to be held in a reserve fund through the maturity date of the 2011 Loan. The short-term investment is invested in money market funds and federal obligations.

Interest expense for the year ended June 30, 2023 was \$3,515.

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6. LOAN PAYABLE (continued)

Future principal payments due under the loan payable at June 30, 2023 are as follows:

<u>Year ending June 30,</u>		
2024	\$	2,735
2025		2,870
2026		3,010
2027		3,150
2028		3,295
Thereafter		<u>59,050</u>
		74,110
Less: unamortized debt issuance costs		<u>(233)</u>
		<u><u>\$ 73,877</u></u>

7. RETIREMENT PLAN

The Museum participates in a defined contribution plan ("the Plan") covering all eligible Foundation employees. The Plan stipulates mandatory contributions to be made by both participants and the Museum. The Museum employees are fully vested in the Museum's contributions after five years of credited service. The City participates in a defined benefit plan ("the City Plan"). The City Plan covers all eligible City employees, including certain Museum employees, and stipulates mandatory contributions to City employees, including certain Museum employees, and stipulates mandatory contributions to be made by participants under the City charter and provisions of the current memoranda of understanding. More information on the City Plan can be found on the City website.

The Museum's contributions to the retirement plan were \$382 for the Foundation and \$930 for the City for the year ended June 30, 2023.

8. COMMITMENTS AND CONTINGENCIES

The Museum leases storage space and certain equipment under operating and capital leases, certain of which are renewable.

The Museum paid rent in the amount of \$252 for storage space and small equipment for the year ended June 30, 2023.

The Museum has \$9,722 in unfunded commitments in alternative investments as of June 30, 2023.

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8. COMMITMENTS AND CONTINGENCIES (continued)

The Museum is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on the Museum's combined statement of financial position or its combined statement of activities.

9. RELATED PARTY

The City provided \$10,695 of direct operational funding for the year ended June 30, 2023. At June 30, 2023, \$1,139 included in accounts payable and accrued expenses is due to the City.

Other related-party transactions included gross contributions from Commission members and Trustees, which totaled approximately \$4,919 for the year ended June 30, 2023. At June 30, 2023, contributions receivable from Commission members and Trustees totaled \$150.

10. CONCENTRATIONS OF CREDIT RISK

Approximately 62% of the net contributions receivable is comprised of amounts from three donors as of June 30, 2023. Approximately 12% of the total contributions and grants revenue is comprised of amounts from one donor for the year ended June 30, 2023.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets subject to donor restrictions consisted of the following:

General	\$ 21,357
Programs and salaries	49,754
Acquisition and conservation	<u>7,028</u>
	<u>\$ 78,139</u>

Net assets subject to donor restrictions released from restriction during the year were as follows:

Programs and salaries	\$ 8,059
Acquisition and conservation	849
Capital campaign	750
General operations	<u>835</u>
	<u>\$ 10,493</u>

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12. ENDOWMENT

The Museum's endowment consists of individual donor-restricted endowment funds. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Museum is subject to UPMIFA and thus, classifies certain amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Trustees appropriate such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Trustees have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date, unless the donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Museum considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

Return objectives and risk parameters

The Museum has adopted an investment policy statement for endowment assets that attempts to provide a predictable stream of funding for programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. Under this policy, as approved by the Trustees, the Museum invests endowment assets in a manner that is intended to yield a long-term rate of return of approximately 6% annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

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12. ENDOWMENT (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Museum to retain as a fund of perpetual duration. The Museum had funds with an original value of \$10,608 that were underwater by \$865 at June 30, 2023. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Trustees. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The Museum has interpreted UPMIFA and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

Spending policy

The Museum's spending policy for its endowment defines the timing and amount of funds available to be transferred to operations. The objective of the spending policy is to provide a predictable and consistent source of support of the Museum's operations calculated in a manner that permits efficient and timely preparation of operating budgets.

The Museum's spending policy for the endowment (the "Endowment Policy") permits withdrawals from the endowment. Endowment withdrawals are budgeted on an annual basis in an amount equal to a percentage ranging from 4% to 7.5% of the previous three-year average of the endowment's total balance. For fiscal years 2012 through 2020, the Museum withdrew 4% annually. For fiscal years 2021 through 2023, the Museum withdrew 4.5%. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the Museum's endowment funds. Amounts withdrawn from the endowment under the Endowment Policy are for the Museum's programs and operating expenses, allocated in accordance with the restrictions pertaining to those funds. The timing and amounts of withdrawals are determined by the Museum's management in consultation with the Budget and Finance Committee and the Executive Committee. Investment-related expenses are charged separately against the endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow in a manner consistent with its intention to maintain the purchasing power of the endowment assets, as well as to provide additional growth through new gifts. Depending upon market conditions and the needs and available resources of the Museum, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.



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12. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition as of June 30, 2023 is as follows:

	With Donor Restrictions
Donor-restricted endowment funds	\$ 71,830

Changes in endowment net assets for the fiscal year ended June 30, 2023 is as follows:

	With Donor Restrictions
Balance, June 30, 2022	\$ 69,922
Contributions	2,770
Investment gains, net	2,727
Change in value	(707)
Appropriation of net assets	(2,882)
Balance, June 30, 2023	\$ 71,830

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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12. ENDOWMENT (continued)

Relationship of spending policy to investment objectives

Description of amount classified as endowment net assets:

The portion of perpetual endowment funds not participating in the investment pool that is required to be held in perpetuity either by explicit donor stipulation or purpose restrictions or UPMIFA	\$ 4,240
The portion of perpetual endowment funds participating in the investment pool that is required to be held in perpetuity either by explicit donor stipulation or subject to a time restriction or UPMIFA	50,332
The portion of perpetual endowment funds participating in the investment pool that is required to be held until time or purpose restrictions imposed by explicit donor stipulations are satisfied	<u>17,258</u>
	<u><u>\$ 71,830</u></u>

13. LIQUIDITY

As part of the Museum's financial management, it has a policy to structure its financial needs as its general expenditures, liabilities, and other obligations come due. In addition, the Museum invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity and operating needs, the Museum holds board-designated operating reserves consisting of investments valued at approximately \$6.21 million as of June 30, 2023. The board-designated operating reserves may contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 4 and Note 12 for disclosures about investments and endowment, respectively). The board-designated operating reserves are considered available for liquidity needs in their entirety.

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13. LIQUIDITY (continued)

The Museum's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Financial assets	
Cash and cash equivalents	\$ 3,545
Investments	39,171
Contributions receivable, net	2,874
Contributions receivable for long-term, net	2,010
Investments held for endowment	71,830
Investments held in trusts	<u>775</u>
	<u>120,205</u>
Less: amounts unavailable for general expenditure within one year	
Donor-imposed restrictions for a specified time, greater than one year, less amounts appropriated and available for expenditure.	(23,567)
Donor-imposed restrictions to be held in perpetuity	(54,572)
Board-designated operating reserves	<u>(6,210)</u>
	<u>(84,349)</u>
Liquid financial assets available for general expenditure within one year	<u>35,856</u>
Additional liquid financial resources pending Board of Trustee directive	
Board-designated operating reserves	<u>6,210</u>
	<u>6,210</u>
	<u>\$ 42,066</u>

The Museum has financial assets available at June 30, 2023 to cover approximately 15 months of operating expenses based on average monthly expenses incurred of \$2,829 for the fiscal year ended June 30, 2023. Board designated funds of \$6.21 million is included in financial assets available in the calculation. Included in Operating expenses excludes depreciation and amortization, and includes costs currently paid by the City.